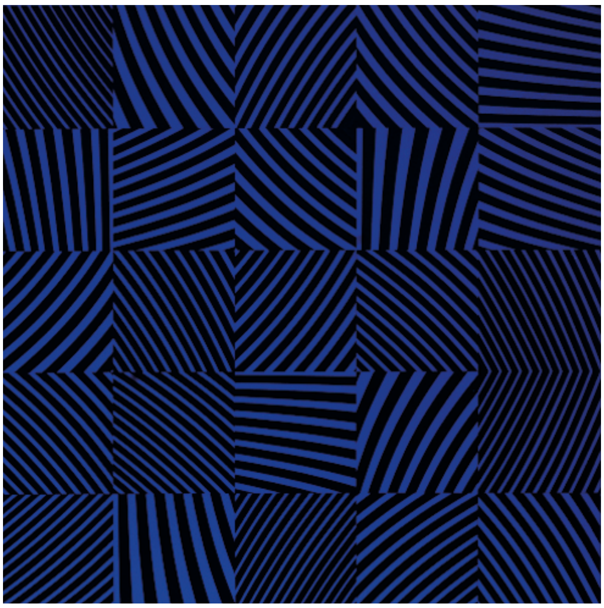
# Quarterly Insight 4Q25

Creativity within Excellence

CBH | Investment Management



Vera Molnar
Coupé collé 57-12-A1
Diptyque
Peinture sur toile

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**Contributors:** Marco Bonaviri, Charlie Carré, Christophe Leroy, and contributions from CBH Asia & 1618 Investimentos

**Design:** Kateryna Polishchuk

**Contact:** am@cbhbank.com

# Embracing the Paradox: Investing Amid Global Disorder

## Key Takeaways

- Investing amid paradox – Geopolitical tensions, political fragmentation, and questionable U.S. fiscal dynamics coexist with record equity markets, robust consumption, and resilient companies.
- Markets resilient despite disorder – Corporate agility, central bank rate cuts, and the AI revolution are fueling growth and investment, underpinning one of the strongest five-month rallies in decades.
- Gold as a stabilizer – Even after strong performance, gold remains a key hedge against debt sustainability concerns, fiscal imbalances, and geopolitical uncertainty.
- Selective opportunities across regions and themes – Structural themes such as AI, energy transition, and reshoring offer long-term growth, while Swiss equities, European value style, specialty chemicals, healthcare, Japan, EM (notably Chinese tech), and Brazil present attractive entry points.
- Valuations elevated – U.S. large-cap equities trade at the high end of historical ranges, making markets more sensitive to negative catalysts. We remain tactically underweight U.S. equities, but see dips as opportunities to rebuild exposure selectively.

Paradox lies at the very heart of human experience — and investors, being human first, constantly confront paradoxical situations. Nowhere is this more visible than today, where geopolitical tensions and political fragmentation intensify, yet global markets continue to set records. This dual reality challenges investors: on one hand, a world fractured by conflict, polarization, and questionable fiscal paths; on the other, resilient companies, supportive monetary policies, and the transformative power of innovation.

We highlighted geopolitical fragmentation in our 4Q 2024 Outlook, and this theme has only deepened. The war in Ukraine drags on without resolution. The world is increasingly polarized, with the United States facing a Russia–China–India bloc. In Brazil, the Trump administration has stepped up pressure on Brazilian institutions in the wake of former president Jair Bolsonaro's conviction, while the Middle East remains shaken by the Israel–Hamas conflict. In Washington, even independent institutions such as the Federal Reserve and the Bureau of Labor Statistics (BLS) have seen their credibility challenged. Meanwhile, the U.S. debt and deficit trajectory is evolving at a pace that appears difficult to sustain in the medium to long term, raising concerns about fiscal sustainability.
And yet, in sharp contrast, equity markets have staged one of their strongest rallies in decades. The S&P 500 has surged nearly 30% in just five months, the third-largest such advance in 20 years. Despite weak confidence indicators, U.S. consumption has remained robust, supported by employment and household resilience. In Southern Europe and Emerging Markets, structural reforms undertaken over the past decade or more are now paying off, making these economies more resilient than many expected. The result is not exuberance, but a form of financial optimism that coexists uneasily with global disorder.

Why do markets behave this way? Companies have proven agile in adapting to disrupted supply chains, volatile geopolitics, and the rapid deployment of new technologies. Central banks have shifted to rate cuts, easing financial conditions at a moment when growth remains robust despite the external shocks. Above all, the ongoing artificial intelligence revolution is fueling an unprecedented investment cycle, reshaping productivity dynamics and driving capital expenditure across sectors.

Still, valuations cannot be ignored. U.S. large-cap equities are expensive by most measures. Forward PE ratios around 22.5x also place U.S. equities at the higher end of their historical range. Importantly, these elevated valuations are not confined to a narrow part of the market but can be observed across most sectors. While valuation alone is not a timing tool, it does increase sensitivity to potential negative catalysts. In this context, our tactical stance is underweight U.S. equities, though we would see any consolidation as an opportunity to rebuild exposure selectively.

Over the medium to long term, we continue to see compelling opportunities in structural themes. AI, power, the energy transition, and U.S. reshoring are transformations set to shape the investment landscape for years to come. While we are tactically cautious on U.S. equities, it is important to underline that the AI revolution is being driven primarily by U.S. companies, and this is the segment we continue to prefer on a structural basis.

Closer to home, Swiss equities now offer a more attractive re-entry point. Recent headlines on tariffs and pressure on drug prices weighed on sentiment, but the risks are more limited than feared: much of Swiss firms' U.S. revenue is produced locally, and exports are concentrated in high value-added, less price-sensitive segments like pharmaceuticals and precision industries. As the situation stabilizes, we see selective opportunities emerging at more attractive valuations.

Beyond Switzerland, we continue to favor the European value style and have recently turned more constructive on the European specialty chemicals sector. On a relative value basis, Japanese and emerging market equities — including Chinese technology — remain attractive. We also see ongoing potential in healthcare for patient value-oriented investors. Finally, Brazil, despite political headwinds, is emerging as a contrarian value opportunity, which can also be approached through structured products to calibrate risk and enhance exposure.

We also continue to emphasize the role of gold as a portfolio stabilizer. Even after a strong rally, the case for gold remains solid, supported by persistent central bank demand, lower real rates, fiscal concerns, and geopolitical uncertainty. In an environment where debt sustainability is in question and political risks abound, gold serves as a vital hedge.

As we move into the final quarter of 2025, investors face a world of paradox. Disorder and resilience will continue to coexist, and markets will reflect both realities. The lesson is not to resist the paradox, but to embrace it — positioning portfolios with discipline, patience, and adaptability.

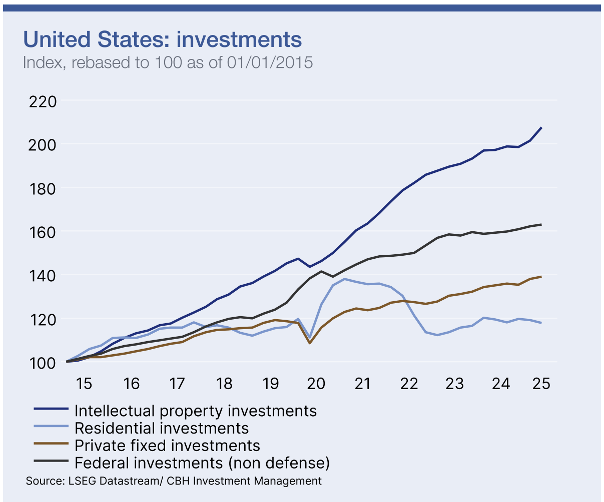
# Macro Outlook – United States

## Key Takeaways

- Despite recent agreements, trade policy uncertainty persists, weighing on sentiment.
- The Fed has cautiously begun cutting rates, balancing inflation concerns with a cooling but stable labor market.
- Investment and consumption remain resilient, supported by robust intellectual property spending and solid household fundamentals.

Although trade agreements have been signed, notably with the European Union, and a temporary truce has been reached with China, uncertainty surrounding U.S. trade policy remains high. The possibility of renewed tensions cannot be ruled out. In this context, businesses, particularly small firms, report scaling back investment plans, and household sentiment remains subdued.

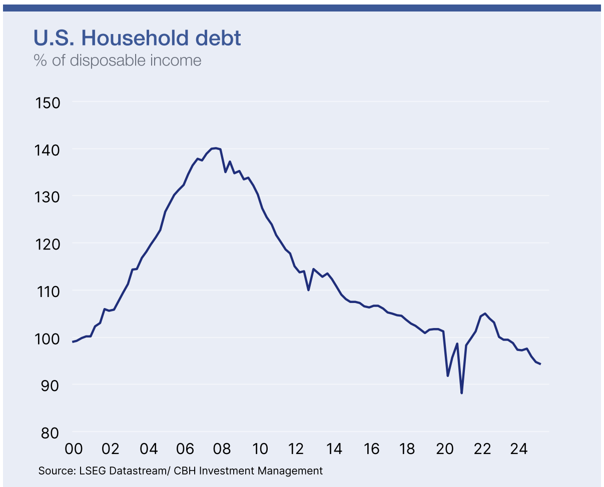
Despite uncertainties fueled by the Trump administration's trade war, rising financing costs, and weakening business sentiment indicators in recent years, the U.S. investment cycle has shown resilience. **American exceptionalism remains intact,** particularly due to robust growth in intellectual property investment. This structural trend fosters innovation, productivity growth, and potential output expansion. The current wave of investment in artificial intelligence reflects and contributes to this trend.




U.S. consumer confidence has been undermined by successive shocks, persistent inflation, and a cooling labor market. Still, household consumption is expected to remain relatively strong. Although employment growth has clearly slowed compared to the exceptional pace of recent years, the labor market remains solid — characterized more by a slowdown in hiring than by rising layoffs.

Wage growth continues, supported by tight labor supply conditions, notably due to declining immigration. At the same time, household balance sheets remain sound: household debt as a share of GDP or disposable income continues to decline. While lower-income households remain more exposed, the overall financial situation is favorable.

Against this backdrop, consumption growth is moderating after two years of expansion above trend, as rising prices and uncertainty around tariffs weigh on demand. However, thanks to solid fundamentals, there is no indication of a sharp contraction.




While fiscal policy is expected to remain accommodative, the "One Big Beautiful Bill" is not expected to significantly boost growth. While tax cuts may support consumption among lower-income households, this effect will likely be offset by the elimination of IRA energy tax credits and reductions in healthcare spending.

Inflationary pressures are expected to intensify, driven by the effects of import tariffs and tighter immigration policies that are exacerbating labor shortages. While inventory accumulation in the first quarter has temporarily delayed price increases, the U.S. economy remains exposed to renewed upward pressure on prices. This vulnerability is heightened by the recent depreciation of the U.S. dollar — particularly against the euro — which is contributing to higher import costs.

**The Federal Reserve is navigating the difficult trade-off between achieving full employment and maintaining price stability.** This task has been complicated by a softening labor market and a resurgence in inflation. In response, the Fed cut rates by 25 basis points in September, marking its first move in 2025. Its latest projections suggest additional cuts are likely in 2025 and 2026. Nevertheless, we maintain a cautious stance. Inflationary pressures remain persistent, and while labor market conditions are easing, they do not suggest a sharp deterioration. The Fed is likely to remain focused on ensuring that inflation expectations remain well-anchored. However, recent challenges to the Fed's independence have introduced uncertainty and contributed to increased volatility in market expectations.

# Macro Outlook – Euro area

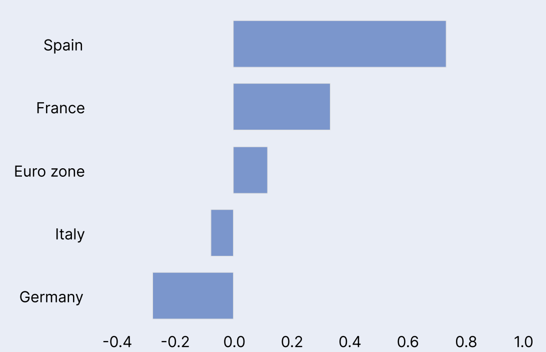
## Key Takeaways

- Monetary easing and credit rebound are supporting activity, but high household savings reflect ongoing uncertainty.
- Fiscal stimulus and EU investment funds may lift growth in 2025–2026, though structural challenges remain significant.
- The European economy has shown resilience despite external shocks.
- Bond market convergence continues, with France facing pressure from political and fiscal risks.

Despite heightened turbulence in the first half of the year—primarily driven by escalating trade tensions and the uncertainty surrounding them—**the European economy has exhibited a degree of resilience.**

Although a trade agreement was concluded with the United States, the broader trade conflict continues to exert adverse effects on Europe, particularly as the industrial sector remains under strain. This is reflected in the persistent weakness of Purchasing Managers' Index (PMI) indicators. Additionally, the economic outlook is clouded by increasing uncertainty regarding the trajectory of the Chinese economy. This is corroborated by the fact that the most industrialized economies, which are characterized by a high degree of exposure to international trade and are exemplified by Italy and Germany, experienced a contraction in economic activity during the second quarter.

**GDP growth, 2nd Quarter 2025**
QoQ, %




Source: LSEG Datastream/ CBH Investment Management

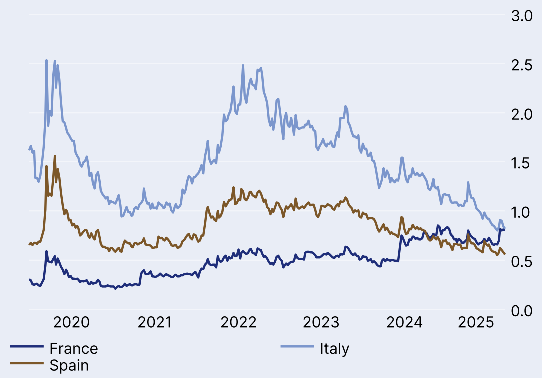
Monetary policy accommodation is, however, beginning to yield tangible effects, with the rebound in credit activity contributing to a moderate revival in economic momentum. Simultaneously, real wage growth—supported by subdued inflation and sustained labor market strength—is providing some support to household consumption. Nevertheless, this dynamic is offset by ongoing household caution, as indicated by the persistently high savings rate across the euro area.

Looking forward, planned increases in defense spending across Europe, combined with significant fiscal stimulus in Germany, are expected to provide renewed impetus to euro area growth in 2025 and 2026. Moreover, the strengthening implementation of Next Generation EU funds is likely to serve as an additional supportive factor. That said, the medium-term growth potential of the European economy remains constrained by a number of structural impediments, including weak productivity growth, insufficient innovation and investment financing, demographic decline, and persistent market fragmentation.

**Sovereign bond markets in the euro area continue to exhibit increased convergence in yield spreads,** reflecting a narrowing of perceived credit risk across member states. French government debt has come under pressure amid rising political instability and concerns over the credibility of the country's fiscal trajectory. In response, Fitch downgraded France's sovereign rating from AA– to A+, citing the absence of a credible path toward fiscal consolidation in the euro area's second-largest economy. Importantly, the sustainability of France's public debt has not been fundamentally questioned. Fitch emphasized the underlying strength and diversification of the French economy, along with its structural current account surplus—factors that reduce vulnerability to shifts in foreign investor sentiment. In contrast, euro area convergence was underscored by S&P's recent upgrade of Spain's sovereign rating to A+, reflecting improvements in the country's external position and resilient growth outlook.

More broadly, public debt should not be assessed solely by its magnitude. Debt can be economically justified when used to finance growth-enhancing investments and supported by structural reforms. In the case of France, investor concerns appear to focus less on debt levels per se than on political gridlock and reform stagnation, which constrain the country's long-term growth potential.

**Euro area: Sovereign spreads**
Difference with the 10year-bund, % points




Source: LSEG Datastream/ CBH Investment Management

On the monetary policy front, the European Central Bank (ECB) has initiated a pause in its easing cycle. Inflation is stabilizing near the ECB's target, and economic activity—while still fragile—has shown signs of resilience.

# Macro Outlook – Other advanced economies

## Key Takeaways

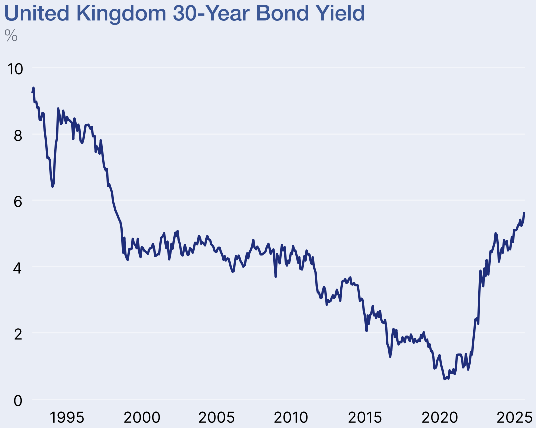
- UK growth is constrained by trade uncertainty, and subdued household consumption.
- Limited policy space: in the UK, high inflation and tight fiscal conditions limit policy responses, while surging gilt yields signal market concerns over fiscal credibility.
- Swiss exports and industrial production are weakening due to U.S. trade tensions, though services and household demand remain resilient.

**Economic growth in the UK is being held back by weakening external demand,** which is being driven by the protectionist measures of the Trump administration and the uncertainty surrounding them. Investment is being held back by ongoing trade-related uncertainty and the growing cost of employers' national insurance contributions. Household consumption is expected to remain subdued. Elevated mortgage financing costs weigh on consumer confidence, encouraging savings over spending.

Meanwhile, economic policy options are limited by stubborn inflation and a lack of fiscal space. In this context, the Bank of England is likely to maintain a cautious stance while the government faces the difficult task of balancing fiscal consolidation with supporting economic activity.

Adding to the challenge, yields on 20- and 30-year gilts have reached their highest levels since 1998—a clear signal of market skepticism toward the government's fiscal consolidation plans. The volatility observed in UK sovereign bond markets since the beginning of the year underscores the country's ongoing fiscal and macroeconomic vulnerabilities.

United Kingdom 30-Year Bond Yield




Source: LSEG Datastream/ CBH Investment Management

**The Swiss economy has not been immune to the effects of the ongoing trade war.** While GDP grew by 0.7% in the first quarter—largely supported by frontloading of U.S. imports in anticipation of tariff increases—this momentum reversed in the second quarter. Value creation in the industrial sector, as well as exports, experienced a marked contraction. The manufacturing sector has been particularly vulnerable, reflecting external demand volatility and inventory adjustments. As a small, highly open economy, Switzerland is especially vulnerable to protectionist policies implemented by the United States. Although the pharmaceutical industry has thus far remained insulated from tariff measures, overall economic growth is expected to slow significantly. According to estimates released by KOF on August 1, the trade tensions could reduce GDP by between 0.3 and 0.6 percentage points. Nonetheless, a recession is not currently anticipated.

Industries with high U.S. exposure—such as watchmaking, precision instruments, and machinery—face heightened risks, particularly where firms have limited pricing power. A considerable number of companies in these sectors may be compelled to sharply curtail exports to the U.S., or exit the market altogether. Long-term employment losses are projected to range from 7,500 to 15,000 jobs.

In contrast, growth in the services sector has remained broadly positive. Household consumption has proven resilient, with consumers maintaining spending levels despite a generally subdued economic outlook.

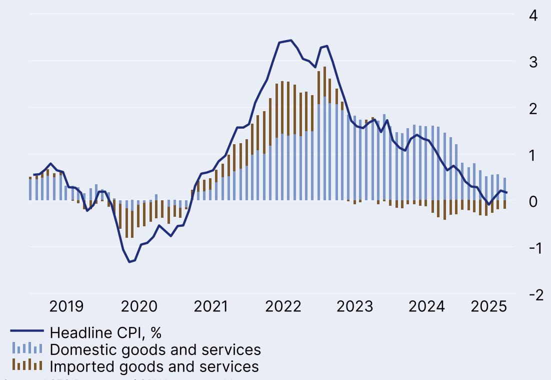
On the inflation front, downward pressures remain prevalent. The strength of the Swiss franc—particularly against the U.S. dollar—combined with declining commodity prices, especially in the energy segment, has led to a notable reduction in imported inflation. Conversely, domestic price pressures, particularly within the services sector, are rising at a moderate pace, suggesting that underlying demand remains resilient.

In this context, the Swiss policy rate currently stands at zero, and the prospect of a return to negative interest rates has resurfaced. However, the Swiss National Bank (SNB) appears more tolerant of currency appreciation than in the past. While the nominal exchange rate has strengthened, the real appreciation is less pronounced due to Switzerland's relatively subdued inflation compared to its trading partners.

Moreover, SNB Governor Martin Schlegel emphasized that reintroducing negative interest rates was difficult, suggesting a cautious approach to further monetary easing.

**Switzerland: CPI contribution**

YoY change, %




Source: LSEG Datastream/ CBH Investment Management

# Macro Outlook – Asia

## Key Takeaways

- Domestic resilience with swift fiscal and structural reforms defines regional winners.
- Equity markets will likely reward selective positioning over broad beta exposure.

The Asia-Pacific region expected to see further unprecedented policy divergence and structural shifts in 4Q25 that will reshape investment landscapes. Rather than temporary adjustments, the current environment suggests a fundamental reordering of regional growth models, where domestic resilience becomes the defining characteristic of outperformers. Currency volatility and trade uncertainty will continue, but their impact will increasingly differentiate winners from laggards based on structural adaptability.

### China's Policy Arsenal Prepares for Full Deployment

China's authorities are positioning for comprehensive stimulus rollout as the 15th Five-Year Plan unveiling in October. The key meeting will likely reveal the full extent of structural reforms and plan, which covers the period from 2026-2030. Beyond the current fiscal expansion, Beijing had demonstrated their readiness to activate additional stimulus measures should growth momentum falter below the growth trajectory targets. The shift to "moderately loose" monetary policy signals willingness to abandon traditional deficit constraints if external pressures intensify.

IMF upgraded China's GDP outlook to 4.8% this year compared with a previous forecast for 4% due to better 1H25 performance that aided by front-loaded exports and consumer stimulus. Consumption-focused initiatives will remain the dominant policy push, with expanded consumer subsidies potentially scaling beyond current programs and social safety net enhancements targeting household confidence (expanding and improving the pension, health, and welfare systems). The property sector stabilization fund under consideration could represent the missing piece for sustained domestic demand recovery. Equity markets will likely respond to policy implementation speed rather than announcement magnitude, suggesting selective opportunities in consumption beneficiaries and infrastructure plays.

### Japan's Normalization Cycle Enters Critical Phase

The Bank of Japan (BoJ)'s interest rate to reach 1% by end-2025 appears increasingly achievable as wage-price dynamics strengthen beyond expectations. Corporate governance momentum will accelerate with additional share buyback programs and foreign investor re-engagement expected through year-end. But the recent resignation of Japan's Prime Minister Shigeru Ishiba have injected the near-term political uncertainty that may complicate the BoJ's rate path. The LDP is expected to select a new Prime Minister by late October and the "policy pause" may prompt the BoJ to adopt a cautious stance by postponing additional interest rate hikes to avoid destabilizing markets amid the political shift.

Equity valuations is expected to benefit from multiple expansion driven by earnings growth acceleration and improved capital allocation efficiency, especially if the new PM is capable to demonstrates clear commitment to economic reform. The technology sector's AI infrastructure buildout combined with traditional export competitiveness recovery underpins sustained earnings momentum into 2026.

### India's Growth Durability Faces Policy Constraints

The Reserve Bank of India (RBI) will likely maintain its extended pause stance after an aggressive easing totalling 100bp through 2025, as inflation projections to be 3.1% for fiscal year 2025 to March 2026. But the RBI could take step with further CRR reductions to ensure adequate liquidity support without additional rate cuts especially in light of the trade uncertainty with US. Although the real impacts from the high trade tariff rate may be limited given the US accounts for just 18% of India's exports, the trade uncertainty may dampen the foreign investors inflows and disruption of supply chains. Domestic growth engines remain intact with infrastructure investment and digitalization initiatives sustaining momentum and could somewhat buffer the trade shocks. In a nutshell, prolonged trade tensions likely introduce an elevated risk premium on India's equities, target returns reflect selective opportunities rather than broad market appreciation with focus on companies with domestic focus, strong pricing power and resilient balance sheet.

### Valuation Support Remains Compelling Across the Region

Albeit market outlook hinge on the global trade development, policy trajectory and domestic growth momentum sustainability, valuations on Asian equity markets continue trading at discounts to historical valuations, with most major indices 20-40% below their recent peaks, highlighting the disconnect between valuations and improving corporate metrics. Looking ahead, the fourth quarter will determine whether current policy divergences represent temporary adjustments or permanent structural shifts. China's comprehensive stimulus deployment, Japan's normalization acceleration, and India's growth sustainability will shape regional dynamics well beyond 2025. Selective equity exposure favoring domestic resilience themes over trade-sensitive sectors appears the most prudent positioning as uncertainty transitions from temporary disruption to structural reordering.

# Macro Outlook – Brazil

## Key Takeaways

- Brazil faces a cyclical slowdown without outright recession, but fiscal fragility remains a central risk.
- The Selic rate is expected to stay elevated, keeping Brazil among the highest real-rate economies globally.
- Political uncertainty ahead of the 2026 elections, combined with institutional tension, constrains reform capacity.

### Economic Outlook: Cyclical Slowdown with High Real Rates.

The Brazilian economy is going through a cyclical slowdown, with clear signs of cooling in activity, especially in credit-related sectors, while income-linked segments sustain part of consumption. Unemployment shows a slowdown in the creation of formal jobs, but wages remain high, which provides some support to domestic demand. In addition, household default has been marginally increasing and has reached its highest level since 2013. Inflation has been easing at the margin, especially in low-income segments, driven by industrial goods and tradables, but services core inflation remains under pressure. Nevertheless, inflation is still detached from the target, and the Central Bank is likely to keep the yield rate higher for longer. The market expects cuts to begin only in early 2026, with the Selic around 12.5% by year-end, a level that would keep Brazil among the countries with the highest real interest rates in the world.

### Political Landscape: Institutional Tension and 2026 Elections.

From a political standpoint, the environment remains marked by institutional tension and high electoral uncertainty. The conviction of former President Jair Bolsonaro and the low probability of amnesty remove him from the center of the 2026 race, opening space for a reorganization of the right. The current government, in turn, faces high disapproval levels (around 50% in the latest polls), pressured by food inflation and a scandal involving fraud in the social security system that allegedly included improper benefit payments, despite a recent marginal improvement in popularity. Furthermore, the backlash against President Donald Trump's imposition of trade tariffs on Brazilian products reignited the domestic debate over the country's external vulnerability and led the government to reinforce rhetoric around defending national sovereignty and diversifying strategic partnerships. The outlook through 2026 is one of intense political fragmentation and polarization between left and right, with direct impacts on the government's ability to pass structural reforms in Congress.

### Fiscal and External Accounts: Persistent Fragility.

On the fiscal side, the debt trajectory remains a central concern. The persistence of an expansionary policy, combined with the government's difficulty in building a solid base in Congress, pressures long-term expectations and keeps the yield curve steep. The 2026 scenario appears binary: an institutional shift and greater fiscal discipline could allow risk premiums to compress and local assets to appreciate; otherwise, the perception of fragility would solidify. On the external front, the deteriorating current account exposes the economy's dependence on foreign direct investment. In the FX market, the global trend of a weaker dollar is offset by worsening domestic fundamentals and fiscal risks, limiting room for a sustainable appreciation of the Real.

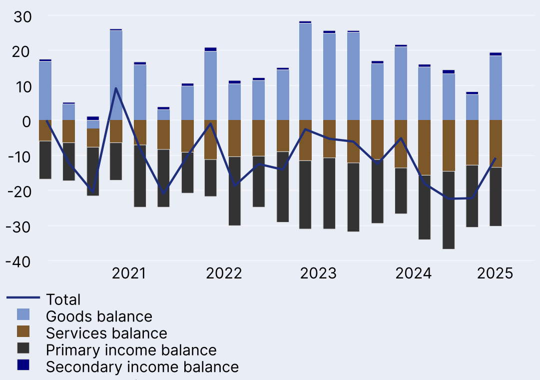
### Growth and Trade: Limited Macro Impact from U.S.

Tariffs. Growth projections have been revised downward, with expectations of cooling activity without characterizing a recession, as consumption and credit show signs of losing momentum. The introduction of U.S. tariffs on Brazilian products should have a limited macroeconomic impact, given the relatively closed profile of the economy and diversified exports, but it poses microeconomic risks for specific sectors such as orange juice, coffee, proteins, footwear, and aviation (through the national company Embraer). Of these sectors, only orange and aviation were exempted from the tariff package. The government's chosen response was a tax waiver aimed at mitigating the impact of tariffs on affected companies, which further underscores fiscal fragility. An additional risk is that the U.S. Secretary of State Marco Rubio threatened to impose new tariffs on Brazil in retaliation for the arrest of former President Jair Bolsonaro.

## Markets: Cheap Valuations but Risk Premiums Remain High.

Brazilian assets remain cheap compared to global peers, when observed in P/E and P/B multiples versus return on equity and dividend yield. However, the risk premium on long-term NTN-Bs (relative to US TIPs) remains elevated, capping more significant upside for equities. Three pillars support the attractiveness of the local market: the prospect of the start of a rate-cutting cycle, discounted valuations across several asset classes, and corporate earnings, with positive surprises in profits and revenues. Nevertheless, there are not enough macroeconomic fundamentals to justify a structural shift in the economy. So far, momentum has been driven by foreign capital inflows into the broader emerging markets basket, while local institutional investor allocation to equities remains at historic lows.

**Brazil current account balance**
USD, billions




Source: LSEG Datastream/ CBH Investment Management

## Conclusion: Selectivity Required Amid High Uncertainty.

In summary, Brazil combines an orderly slowdown cycle without recession but with relevant risks in fiscal policy and the external sector. This context supports opportunities in NTN-Bs and discounted equities but requires discipline and selectivity in the face of an uncertain political environment and high real interest rates.

# Macro Outlook – Commodities

## Key Takeaways

- The ongoing pressures on the Federal Reserve's autonomy, along with the persistent market uncertainties, are contributing to a sustained high demand for gold.
- Despite geopolitical tensions, oil prices are trending downward due to sustained supply and weakening demand amid the broader economic slowdown.

**Over the past quarter, gold prices reached new highs,** supported by the Trump administration's repeated attacks on the Federal Reserve's independence and growing concerns over the trajectory of public finances, not only in the United States but also in Europe and Japan.

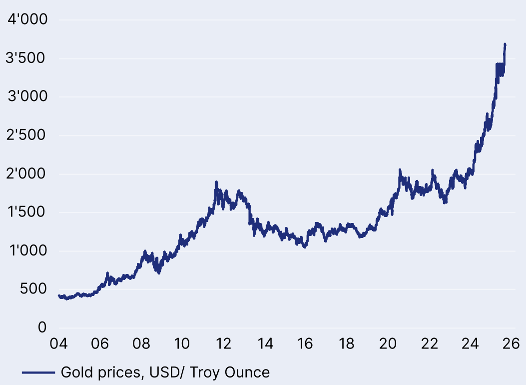
Gold, long regarded as a hedge against inflation, has benefited from the fear that political pressure on the Fed could lead it to adopt a more accommodative monetary policy than economic fundamentals would otherwise justify. Market participants fear that a perceived weakening of the Fed's independence could result in premature rate cuts, which would fuel upward pressure on long-term inflation expectations and erode confidence in U.S. Treasuries.

Although indicators measuring uncertainty around U.S. trade policy have declined, reflecting the implementation of trade agreements with some key partners, the situation remains volatile. This persistent uncertainty continues to drive investors toward gold as a safe-haven asset.

In parallel, central banks have significantly increased their gold holdings in recent years as a hedge against rising geopolitical risks and as part of a broader strategy to diversify away from U.S. dollar-denominated assets. This trend accelerated notably after the Russian central bank's reserves were frozen in 2022, prompting many monetary authorities to reassess the security and composition of their foreign exchange reserves.

Price of gold

%




Source: LSEG Datastream/ CBH Investment Management

Since the beginning of the year, the price of gold has increased by 38%, surpassing $3,600 per troy ounce. According to Goldman Sachs, prices could approach $5,000 per ounce if sustained political pressure undermines the independence of the U.S. central bank.

During the first half of 2025, the average price of Brent crude declined to $71 per barrel. Price volatility resurfaced in June 2025 amid heightened tensions in the Middle East. Since early 2025, however, **oil prices have trended downward, reflecting a weak global economic environment that is dampening demand.** This trend is occurring alongside the gradual reintroduction of barrels previously withheld from the market by OPEC+. This trend is expected to continue in the coming months, as oil supply will significantly outpace demand.

Several risks beyond significant geopolitical tensions and potential conflicts around the world—particularly in the Middle East near the Strait of Hormuz—remain critical to this outlook. Resolving the war in Ukraine could lower prices by easing sanctions on Russia. Conversely, further deterioration in U.S.-Russia relations could lead to intensified sanctions, restricting supply and pushing prices up.

Additionally, the increasing frequency of extreme weather events in the United States, such as hurricanes in Florida and polar vortexes in Texas, poses risks to the world's largest oil producer and, consequently, to global oil prices.

**Crude Oil WTI**

USD price per barrel


Source: LSEG Datastream/ CBH Investment Management

# Key Macro Data & Forecasts

| | Annual | | | | 2024 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025e | 2026e | Q1 | Q2 | Q3 | Q4 |
| **United States** | | | | | | | | |
| **Real GDP** | **2,9** | **2,8** | **1,6** | **1,5** | **1,6** | **3,0** | **3,1** | **2,5** |
| Private consumption | 2,5 | 2,8 | 1,9 | 1,6 | 1,9 | 2,8 | 3,7 | 4,0 |
| Investment | 2,4 | 3,7 | 2,8 | 1,0 | 6,5 | 2,3 | 2,1 | -1,1 |
| Domestic demand (contribution, %pt) | 2,8 | 3,2 | 2,1 | 1,5 | 2,8 | 2,9 | 3,8 | 3,1 |
| Inventories (contribution, %pt) | -0,4 | 0,1 | -0,1 | -0,2 | -0,5 | 1,1 | -0,1 | -0,9 |
| Net exports (contribution, %pt) | 0,5 | -0,4 | -0,3 | 0,2 | -0,7 | -1,0 | -0,6 | 0,3 |
| Inflation (CPI, %yoy) | 4,1 | 3,0 | 3,0 | 2,8 | 3,2 | 3,2 | 2,7 | 2,7 |
| Unemployment rate (%) | 3,6 | 4,0 | 4,3 | 4,4 | 3,8 | 4,0 | 4,2 | 4,1 |
| **Euro area** | | | | | | | | |
| **Real GDP** | **0,5** | **0,8** | **0,7** | **1,1** | **0,5** | **0,5** | **0,9** | **1,3** |
| Private consumption | 0,5 | 1,2 | 1,2 | 1,3 | 0,9 | 0,7 | 1,3 | 1,8 |
| Investment | 2,0 | -2,1 | 3,5 | 1,9 | -1,1 | -3,2 | -1,8 | -2,2 |
| Domestic demand (contribution, %pt) | 1,0 | 0,7 | 1,5 | 1,3 | 0,6 | 0,2 | 0,9 | 1,0 |
| Inventories (contribution, %pt) | -0,8 | -0,3 | -0,1 | -0,1 | -0,8 | -0,8 | 0,1 | 0,4 |
| Net exports (contribution, %pt) | 0,3 | 0,4 | -0,8 | -0,2 | 0,7 | 1,0 | -0,1 | -0,1 |
| Inflation (HICP, %yoy) | 5,5 | 2,4 | 2,1 | 2,0 | 2,6 | 2,5 | 2,2 | 2,2 |
| Unemployment rate (%) | 6,6 | 6,4 | 6,4 | 6,4 | 6,6 | 6,4 | 6,3 | 6,3 |
| **China** | | | | | | | | |
| **Real GDP** | **5,4** | **5,0** | **4,7** | **4,3** | **1,4** | **1,0** | **1,3** | **1,6** |
| Unemployment rate (%) | 5,1 | 5,1 | 5,1 | 5,1 | 5,2 | 5,0 | 5,1 | 5,1 |
| Inflation (CPI, %yoy) | 0,2 | 0,2 | 0,1 | 1,0 | 0,0 | 0,3 | 0,5 | 0,2 |
| **Trade** | 1,0 | 3,5 | 1,7 | 1,9 | | | | |

## Forecasts – Rates

| | Actual | Target | | Last 5 years | |
|---|---|---|---|---|---|
| **Policy rate** | 09/25 | 3M | 12M | High | Low |
| Fed funds (upper) | 4,25 | 4,00 | 3,50 | 5,50 | 0,25 |
| ECB deposite rate | 2,00 | 2,00 | 1,75 | 4,00 | -0,50 |
| **10-year rate** | | | | | |
| Us Treasury | 4,07 | 4,30 | 4,50 | 4,83 | 0,68 |
| German Bund | 2,68 | 2,60 | 2,50 | 2,88 | -0,62 |
| **FX** | | | | | |
| EUR/USD | 1.19 | 1,17 | 1,22 | 1,22 | 0,98 |
| EUR/CHF | 0,93 | 0,95 | 0,97 | 1,10 | 0,93 |
| USD/JPY | 146,99 | 151,00 | 137,00 | 157,73 | 103,12 |
| GBP/USD | 1,37 | 1,32 | 1,42 | 1,41 | 1,12 |

# Asset Class Views

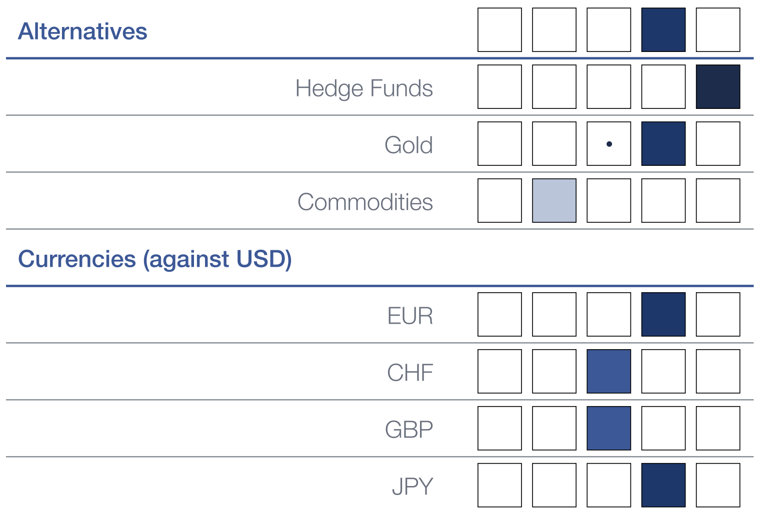
## These asset class views have a 3 to 12 month horizon.

Where there has been a change since the last Quarterly Insight, the dot ( • ) indicates the previous view. These views should not be regarded as portfolio recommendations. This summary of our individual asset class views indicates the strength of conviction and relative preferences across a broad range of assets, but is independent of portfolio construction considerations.

| | | | | | |
|---|---|---|---|---|---|
| **Fixed Income** | | | ■ | | |
| Government Bonds | | | ■ | | |
| Corporate Investment Grade | | | ■ | | |
| Corporate High Yield | | | | | ■ |
| Emerging Market Debt Local Currency | ■ | | | | |
| Emerging Market Debt Hard Currency | | | ■ | | |
| Duration | | | ■ | | |
| **Equities** | | ■ | | | |
| United States | | ■ | | | |
| Europe | | | ■ | | |
| UK | | | ■ | | |
| Switzerland | | | ■ | | |
| Japan | | | ■ | | |
| Emerging Markets ex-China | | | ■ | | |
| China | | • | ■ | | |
| **Equitiy Sectors** | | | | | |
| Communication Services | | | | ■ | |
| Consumer Discretionary | | | ■ | | |
| Consumer Staples | | | ■ | | |
| Energy | | ■ | | | |
| Financials | | | ■ | • | |
| Healthcare | | | ■ | | |
| Industrials | | | ■ | • | |
| Information Technology | | | | ■ | |
| Materials | | | ■ | | |
| Real Estate | | ■ | | | |
| Utilities | | | ■ | | |

### How to read the table?

Highly Underweight
Underweight
Neutral
Overweight
Highly Overweight




• – previous positioning

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# Asset Allocation

## The Case for Allocating to International Equities

### Key Takeaways

- Portfolio construction must adapt to today's realities, including rising geopolitical fragmentation and extreme equity market concentration.
- With U.S. exceptionalism fading and the dollar cycle potentially having peaked, dollar-based investors stand to gain from the currency diversification that international equities provide.
- Expanding exposure beyond U.S. equities enhances diversification across economic cycles, sectors, investment styles, and themes.
- International equities offer more attractive long-term return potential, supported by relatively cheaper valuations.

In today's fast-evolving financial markets, two structural forces—geopolitical fragmentation and extreme equity market concentration—make it essential to adapt portfolio construction for greater robustness. Against this backdrop, the allocation to international equities has garnered renewed attention. While U.S. equities have historically dominated global portfolios, the shifting dynamics of the global economy suggest that investors may benefit from a more diversified approach, strengthening the case for increased geographic diversification over the past five years.

**Performance of US and International Equities since Inauguration Day**
Emerging Markets Have Strongly Outperformed in 2025

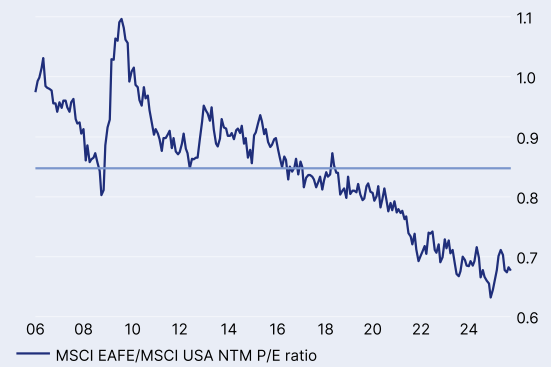

Source: LSEG Datastream/ CBH Investment Management

For a U.S. dollar-based investor holding a classic 60/40 portfolio, approximately 38% of assets are allocated to U.S. equities, with the so-called "Magnificent Seven" alone representing 12% of the portfolio. While the enormous market capitalizations of these stocks reflect their growth and profitability, such concentration also introduces meaningful risk. From this starting point, portfolio managers face a choice: track the benchmark regardless of concentration, or adopt a more disciplined approach that emphasizes risk management and diversification. At a minimum, investors should reassess the benefits of broadening equity exposure beyond the U.S. to reduce concentration risk and enhance portfolio resilience.

Increasing exposure to international equities offers several tangible diversification benefits. Economic cycles across regions are not perfectly correlated, helping to smooth portfolio performance and reduce reliance on a single market driver. It also mitigates concentration risk, particularly the dominance of U.S. equities and the "Magnificent Seven." U.S. equity markets are heavily tilted toward technology and growth styles, with the AI theme alone accounting for more than 40% of the S&P 500. Diversifying internationally not only provides broader sector and style exposure, including value and defensive sectors, but also reduces concentrated exposure to high-profile themes like AI, which some investors debate could develop into a bubble. Together, these factors make portfolios more resilient to shifts in U.S. policy, sentiment, sector-specific risks, or speculative themes.

Beyond diversification, international markets also present compelling return opportunities. Valuations outside the U.S. are generally less stretched, creating greater potential for long-term performance. Lower starting valuations tend to support higher expected long-term returns because investors pay less for each unit of economic output, leaving more room for price appreciation as earnings grow. Many of these markets are also less efficient, which gives active managers more scope to generate alpha. Finally, a weakening U.S. dollar adds another tailwind, as currency diversification can enhance both returns and resilience.

**Relative Valuation of International Equities vs US Equities**
Stocks Outside of the US Offer Attractive Valuations




Source: LSEG Datastream/ CBH Investment Management

## Balancing Risk, Seizing Opportunities

At the portfolio level, we keep overall risk close to neutral, with our underweight in equities offset by our overweight in credit. That said, we are considering tilting further toward cyclical exposures given our constructive outlook for risk assets. At the same time, we continue to emphasize active management and portfolio robustness to guard against unforeseen shocks.

Within fixed income, we continue to favour credit risk over duration risk, as uncertainty around the rate outlook varies significantly along the curve. For now, we hold duration close to neutral at around four years. Credit remains a key overweight, with high yield and corporate hybrids offering, in our view, a compelling short-term risk/return profile.

In equities, we remain underweight—particularly in U.S. equities—given stretched valuations and heightened political noise. However, if markets experience a healthy correction, we would see scope to reallocate part of our credit overweight into U.S. equities at more attractive entry points.

Beyond traditional assets, we seek tactical exposure to volatility premia, both as a hedge against tail risks and to express our view that today's subdued volatility regime is unlikely to persist. Gold remains our preferred antifragile asset, and despite its sharp rally, we still see scope to add further.

# Equities

## AI Momentum, Stretched Valuations, and the Appeal of International Equities

### Key Takeaways

- The market's significant exposure to AI as a structural growth theme should provide resilience amid softening macro conditions.
- Europe and Japan offer diversification benefits with attractive valuations and supportive structural tailwinds.
- U.S. equities remain supported by strong earnings growth expectations, despite stretched valuations.
- Emerging markets benefit from weaker USD, easier monetary policy, and compelling relative valuations.

Despite the volatility in the first half of the year, global equities have recovered strongly from trade war disruptions, with most major indices posting double-digit year-to-date gains. Positive sentiment has been underpinned by robust corporate earnings—particularly in technology and AI-linked sectors—and by renewed inflows into emerging markets, including China. The narrative remains dominated by expectations of an imminent U.S. Federal Reserve rate cut, though investors remain wary that the accompanying guidance could temper dovish hopes and trigger volatility. Elevated valuations, especially among U.S. large-cap tech, remain a concern, while renewed inflationary pressures, a spiralling U.S. deficit, and persistent geopolitical risks provide additional headwinds. Against this backdrop, we maintain a tactical underweight in U.S. equities, preferring to await opportunities that a likely pullback may present. We continue to prioritize portfolio resilience through geographic diversification and active management.

### US Stocks Poised on AI Momentum and Earnings Strength

The S&P 500 has surged more than 30% since the April 9th low, marking its strongest five-month performance in about two decades outside of recessionary periods, as markets climbed the post-tariff "wall of worry." Through the summer, US equities extended their rally on the back of a constructive Q2 earnings season. Earnings delivery has been supported by AI adoption, resilient consumer spending, robust capital investment, and a weaker dollar. More recently, the market received an additional boost from increased expectations of an imminent Fed rate cut in September.

Looking ahead, consensus expects earnings to grow by 13% in 2026, with all sectors contributing. Technology, the largest US sector, remains the standout, with projected EPS growth of 20%, while materials and energy are forecast to deliver the second- and third-strongest growth at 17% each. Notably, the spread in EPS growth between the "Mag-7" and the rest of the S&P 500 is narrowing, signalling an improvement in earnings breadth. While we share some of the consensus's medium-term optimism for US equities, we also see downside risks to these projections, as sustaining the current earnings trajectory is likely to become more challenging without stronger activity momentum.

Nonetheless, the AI supercycle and its accompanying narrative give us reason to maintain a medium-term positive outlook for equities, looking beyond stagflation concerns. The AI-driven cohort continues to dominate: about 30 AI-focused companies now comprise more than 40% of the S&P 500's market capitalization and have been responsible for a substantial majority of the index's earnings growth since late 2022.

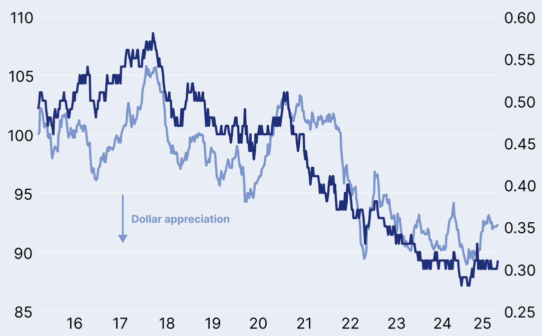
## International Equities Poised to Thrive Amid Diverging Macro and Valuation Dynamics

Since mid-May, European equities have been in a healthy consolidation phase after a strong rally earlier this year. While the momentum that prevailed in Q1 has moderated, we continue to see several supportive factors. First, the macro backdrop should accelerate as fiscal stimulus takes hold, with rising defense and infrastructure spending set to boost growth from next year. Second, relative valuations versus the US remain attractive, reinforcing the case for European equities in global portfolios. On the other hand, there are also notable headwinds. The Eurozone's agreement with the Trump administration on a 15% tariff rate carries less benefit than initially perceived, given commitments to purchase US defense equipment as part of budgeted outlays, which could dilute the fiscal impulse. Absolute valuations for the Stoxx Europe 600 have now normalized and no longer appear inexpensive versus history. Finally, political risk persists, particularly in France, while broader geopolitical uncertainty remains elevated. The war in Ukraine shows little sign of resolution, despite Donald Trump's stated ambition to broker a deal.

While Japanese equities are often characterized as a value market, at 16x next-twelve-month earnings they are currently trading above their 15-year average. In many respects, the value case for Japan resembles that of Europe, though return on equity remains higher in the latter. Valuation considerations aside, we maintain a moderately optimistic long-term outlook for Japanese equities. The market continues to benefit from robust share buybacks and a supportive macro backdrop, particularly through positive wage growth. Structural reforms remain a key tailwind: corporate governance initiatives from the Tokyo Stock Exchange are incentivizing companies to enhance return on equity, reinforcing profitability trends. Finally, global positioning in Japanese equities is still relatively muted, with foreign inflows modest compared to past Abenomics-era surges, leaving scope for increased participation.

**Emerging Markets vs US Dollar**

EM Outperformance Tied to USD Weakness




MSCI Emerging Market / MSCI World (RHS)
Bloomberg Asia Dollar Index (LHS)

Source: LSEG Datastream/ CBH Investment Management

The trajectory of the US dollar remains a key swing factor for emerging market equities. Historically, EM has outperformed during periods of USD weakness. While the dollar has already depreciated meaningfully this year, we expect it to remain broadly under pressure as the US growth–inflation mix deteriorates. In contrast, macro conditions across emerging markets are set to improve, with 19 of 21 EM central banks expected to cut rates in 2H25, providing a supportive monetary backdrop. Global investors have begun to take notice, as recent weeks have seen renewed inflows into EM equities. Valuations further strengthen the case: EM stocks continue to trade at a meaningful discount to developed markets, even after reaching a trough in relative valuation in November 2024. After four consecutive years of underperformance, EM equities appear well positioned to regain momentum, with opportunities extending beyond the well-established China Tech trade.

## Short-Term Caution, Medium-Term Optimism

Overall, our outlook for equities remains constructive over the coming quarters, provided stagflationary fears do not escalate. Resilient earnings growth and improving revisions should continue to act as powerful tailwinds. However, in the near term we remain cautious, as most equity markets look stretched on valuations. U.S. equities, in particular, trade at historically expensive levels, and their premium over the rest of the world remains elevated. We are also mindful that excessively bullish sentiment—particularly around U.S. stocks—could fuel volatility. Indeed, the Q2 reporting season revealed an asymmetry in market reactions: companies beating EPS expectations saw only muted gains (+0.3% on average), while those missing estimates suffered significant declines (-5.7% on average). This dynamic reflects stretched sentiment after the strong rally from the April correction, leaving equities vulnerable to profit-taking.

# Fixed Income

## Lock in still-attractive all-in yields in corporate bonds as the Fed resumes cutting rates

### Key Takeaways

- Maintain credit risk exposure over interest rate risk to capture steady income and potential capital appreciation.
- Short-term high-yield and corporate hybrid bonds remain well-supported by strong fundamentals and favourable technicals.
- Lock in attractive yields in corporate credit amid supportive fundamentals and limited new issuance.
- Keep US Treasury duration near neutral while maintaining a positive view on Treasury Inflation-Protected Securities.

### Still attractive all-in yields in credit

Credit markets remain resilient, supported by the favorable macro backdrop and solid corporate fundamentals that have also propelled equities to new highs. Corporate fundamentals are robust, providing companies with resilience against any near-term economic slowdown. At the same time, strong investor demand for income-generating assets and limited new issuance are supporting corporate bond markets. Earnings growth and expanding profit margins, alongside easy financial conditions and low leverage are supporting extremely tight spreads across both investment-grade and high-yield issues. That said, despite historically tight credit spreads, the combination of steady coupon payments and potential for price appreciation makes the total return profile of corporate bonds particularly compelling. As such, we continue to favor corporate bonds over government bonds as the main source of income.

Within investment grade corporate bonds, we recommend focusing on intermediate maturities of five to seven years. This segment provides consistent coupon income while also allowing active investors to capture capital gains through "rolling down the curve," where bonds naturally appreciate as they approach maturity in an upward-sloping yield environment. This approach balances income generation with the potential for moderate price appreciation, making intermediate maturities particularly attractive in the current environment.

In the high yield segment, we remain constructive on short-term and floating-rate bonds. Given our expectation that the U.S. economy will avoid a recession over the coming quarters, these instruments offer attractive absolute yields while historically exhibiting low default rates. We also continue to see value in corporate hybrid bonds, which provide yields approaching those of high-yield debt but with lower default risk, given that most issuers are large, investment-grade listed companies. The higher income reflects the subordinated nature and specific structural features of these instruments rather than weaker credit quality. Another advantage is that the market is largely composed of European names in more defensive, non-cyclical sectors such as utilities and telecommunications.

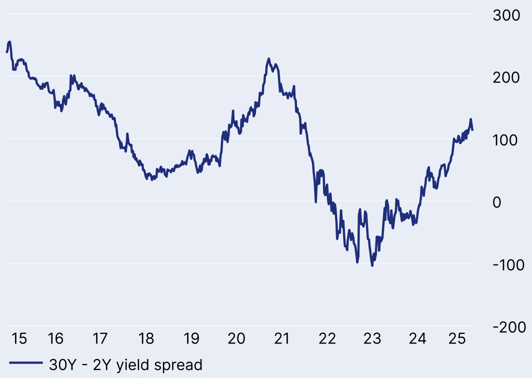
The outlook for emerging market hard currency debt has improved, with many economies continuing to post stronger growth prospects than developed peers. Many central banks across the region are expected to cut policy rates in the second half of 2025, easing domestic financing conditions and supporting growth momentum. Strengthening credit metrics and positive rating trends further reinforce confidence in the resilience of the asset class. In addition, lower U.S. interest rates and a modestly weaker dollar should reduce external financing pressures and encourage capital inflows. Historically, periods of dollar softness have enhanced debt sustainability and boosted investor demand for emerging market bonds. Alongside these tailwinds, the asset class continues to offer attractive carry, combining appealing yields for income-seeking investors with scope for capital gains in a supportive macroeconomic and monetary environment.

## Intermediate US Treasuries and TIPS preferred

The Federal Reserve lowered interest rates by 25 basis points at the September meeting and signaled the possibility of further cuts later this year, though committee views differ on the pace and extent of easing. The decision reflects concerns over near-term risks to growth and employment, effectively front-loading cuts to support the economy. At the same time, updated economic projections show stronger growth, lower unemployment, and persistently high inflation, creating a tension between the need for easing and the broader economic outlook. The Fed appears confident that these cuts will bolster activity without triggering runaway inflation. As a result, short-term interest rates are likely to decline further, while long-term rates may remain elevated and volatile, supported by fiscal pressures and bond vigilantes. This divergence is expected to steepen the U.S. Treasury yield curve in the coming months. Fed cuts will also reduce the appeal of cash deposits, making Treasury yields more attractive. We expect the 10-year Treasury yield to trade between 4.20% and 4.80% through year-end.

**Slope of the US Yield Curve**

Drivers of Curve Steepening: Monetary Easing vs. Bond Vigilantes




Source: LSEG Datastream/ CBH Investment Management

We maintain a positive view on U.S. Treasury Inflation-Protected Securities (TIPS), reflecting expectations for near-term inflationary pressures. Consumer and producer prices are likely to be supported by tariff-related pass-through and resilient services inflation. In addition, persistent fiscal imbalances and uncertainty around the inflation trajectory are expected to sustain breakeven inflation, reinforcing the case for TIPS in the coming months.

# Forex

## Greenback Set to Remain Under Pressure from Macro, Politics, and Fed Policy

### Key Takeaways

- USD faces pressure from slowing growth, persistent inflation, and cyclical fragility, despite no imminent U.S. recession.
- Political risks, including potential Fed interference, add further downside pressure, reinforcing expectations of continued U.S. dollar weakness.
- Fed rate cuts, multinational hedging flows, and global diversification weigh on the dollar, supporting a broadly bearish outlook into 2026.
- EUR/USD is expected to rise toward 1.20, driven primarily by dollar softness; a positive euro catalyst is needed to push higher.

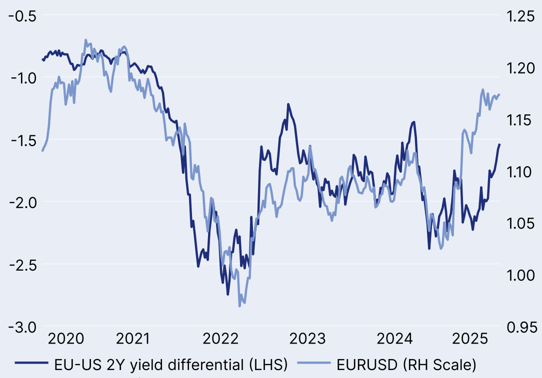
We maintain a cautious mid-term view on the U.S. dollar, driven primarily by cyclical considerations but increasingly supported by structural factors. While a U.S. recession is not imminent, the macro backdrop leans toward stagflation, with slowing growth colliding with sticky inflation. Indicators such as weaker ISM surveys, slower payroll gains, and softer retail sales point to a deceleration in economic activity, highlighting the fragility of the cycle. Adding to these cyclical pressures, hedging flows from U.S. multinationals repatriating overseas earnings and global reserve managers diversifying away from dollar assets continue to exert downward pressure. Some international investors are also hedging their exposure to U.S. assets after a period of strong U.S. asset and dollar performance.

In contrast, the European outlook is gradually improving. Although trend growth remains muted, an easing fiscal and policy backdrop—especially potential German flexibility and broader European defence commitments—is lowering the bar for positive surprises, supporting European assets and helping reduce the euro's long-standing structural risk premium.

Against this backdrop, the Fed has little choice but to continue cutting policy rates to support growth. By contrast, the ECB and other major central banks appear much closer to the end of their rate-cutting cycles. At the same time, the BoJ is expected to remain on a path of gradual tightening. This divergence in policy trajectories supports our view that yield dynamics will continue to drive a broadly bearish outlook for the U.S. dollar into 2026.

**EUR/USD vs Yield Spread**

The Yield Differential Remains a Primary Driver of EUR/USD




Source: LSEG Datastream/ CBH Investment Management

In our view, political interference—whether through trade policy, the currency narrative, or threats to Fed independence—adds an additional layer of downside risk for the U.S. dollar. The administration has signalled a strong preference for significantly lower interest rates, seeing easier financial conditions as a tool to support growth and manage fiscal challenges. This stance reinforces market expectations of continued Fed accommodation, contributing to a softer dollar profile. President Trump's August 25 decision to dismiss Fed Governor Lisa Cook has further heightened concerns about threats to the Fed's independence. While the case is likely to reach the Supreme Court, it underscores the administration's willingness to intervene aggressively in monetary policy. Markets have so far shown little reaction, but we believe the risk of further interference will become a defining theme for the remainder of Trump's term, and that the implications for Fed independence remain underappreciated by investors.

Against this backdrop, we continue to expect EUR-USD to rise to 1.20 in the medium term, a view driven largely by dollar weakness rather than inherent euro strength. A sustained move beyond 1.20 would require a clear EUR-positive catalyst and a more compelling euro-area narrative, such as evidence that fiscal stimulus is materially boosting growth. Conversely, potential triggers for a sustained greenback rebound include a resurgence of the U.S. exceptionalism narrative due to stronger-than-expected data, renewed macro weakness in the Eurozone if German fiscal stimulus fails to deliver meaningful growth support, rising U.S. inflation prompting a hawkish repricing of the Fed's policy path, or an escalation in geopolitical tensions that restores the dollar's safe-haven appeal.

### JPY Outlook: Political Change and Cyclical Support Amid Fed-BoJ Divergence

On September 7, 2025, Japanese Prime Minister Shigeru Ishiba resigned following significant electoral defeats that left the Liberal Democratic Party (LDP) without a majority in both houses of parliament. Facing internal party pressure and declining public support, Ishiba stepped down to prevent further divisions within the LDP. Leadership elections are expected in early October, but near-term political uncertainty is likely to weigh on Japanese assets. Although the yen's short-term trajectory may be influenced by the policies of the incoming leadership, USD/JPY remains more sensitive to global factors and U.S. monetary developments than domestic politics.

Cyclical factors continue to provide support for the yen. The combination of the Fed resuming its rate-cutting cycle and the prospect of BoJ hikes is expected to narrow the U.S.-Japan interest rate differential, enhancing the yen's appeal. Lower short-term U.S. yields may also encourage Japanese investors to hedge their dollar assets, as hedging costs ease. Together, these dynamics underpin medium-term cyclical support for the currency amid ongoing global uncertainty.

Looking ahead, an October BoJ rate hike is currently seen as roughly a 50% probability, with recent commentary from officials supporting that view. Q2 GDP surprised to the upside, and wage growth—though slowing—remains consistent with the inflation target, while continued yen weakness adds pressure for tighter policy. BoJ board member Junko Nakagawa has emphasized that a hike would be appropriate if the outlook holds. Meanwhile, U.S. Treasury Secretary Scott Bessent has criticized BoJ policy as a driver of yen undervaluation, suggesting that a rate increase could also strengthen Japan's negotiating position in trade discussions with the U.S. on tariff reductions.

### GBP Outlook: Fiscal Pressures and Rising Inflation Cloud Sterling's Near-Term Prospects

With fiscal and structural factors resurging a key drivers of G10 FX dynamics, the UK's fiscal challenges have re-emerged as a major headwind for sterling. A persistent fiscal premium is likely to weigh on the currency at least until the November 26 Budget. Adding to the negative backdrop, long-term inflation expectations are rising, pushing yields higher and complicating the policy outlook. While this may force the BoE to adopt a less dovish stance than markets anticipate, relatively firm short-term rates are unlikely to provide much support for the pound if they are accompanied by a stagflationary environment.

### CHF Outlook: Defensive Safe-Haven Appeal Offsets Short-Term Tariff Headwinds

The 39% U.S. tariff on Swiss goods came in well above the 31% initially feared, with estimates suggesting it could reduce Swiss GDP by around 1% over the medium term. This represents a clear short-term cyclical headwind for the franc. However, our bullish view on the currency is primarily driven by its defensive qualities rather than cyclical factors. Looking ahead, the franc is likely to remain supported by its safe-haven appeal amid ongoing global economic and political uncertainty. Potential risks, such as negative SNB rates or FX intervention, could generate temporary volatility but are unlikely to fundamentally alter the franc's structural resilience.

# Geographical Presence

CBH is present in Geneva, Zurich, London, Luxembourg, Israel, Hong Kong, Rio de Janeiro, São Paulo and The Bahamas. Due to its international exposure, it is under the consolidated supervision of the FINMA in Switzerland and its affiliated companies are supervised by the CSSF in Luxembourg, the FCA in the United Kingdom, the Central Bank of The Bahamas, the SFC in Hong Kong and the CVM in Brazil

## Geneva
Headquarter

CBH Bank
Bd Emile-Jaques-Dalcroze 7
P.O. Box
1211 Geneva 3, CH

cbhbank.com
t +41 22 839 01 00

## Zurich
Branch Office

CBH Bank
Bahnhofstrasse 82
P.O. Box 119
8021 Zurich, CH

cbhbank.com
t +41 44 218 15 15

## Luxembourg
SICAV

1618 Investment Funds
106, route d'Arlon
8210 Mamer, L

1618am.com

## London
Subsidiary

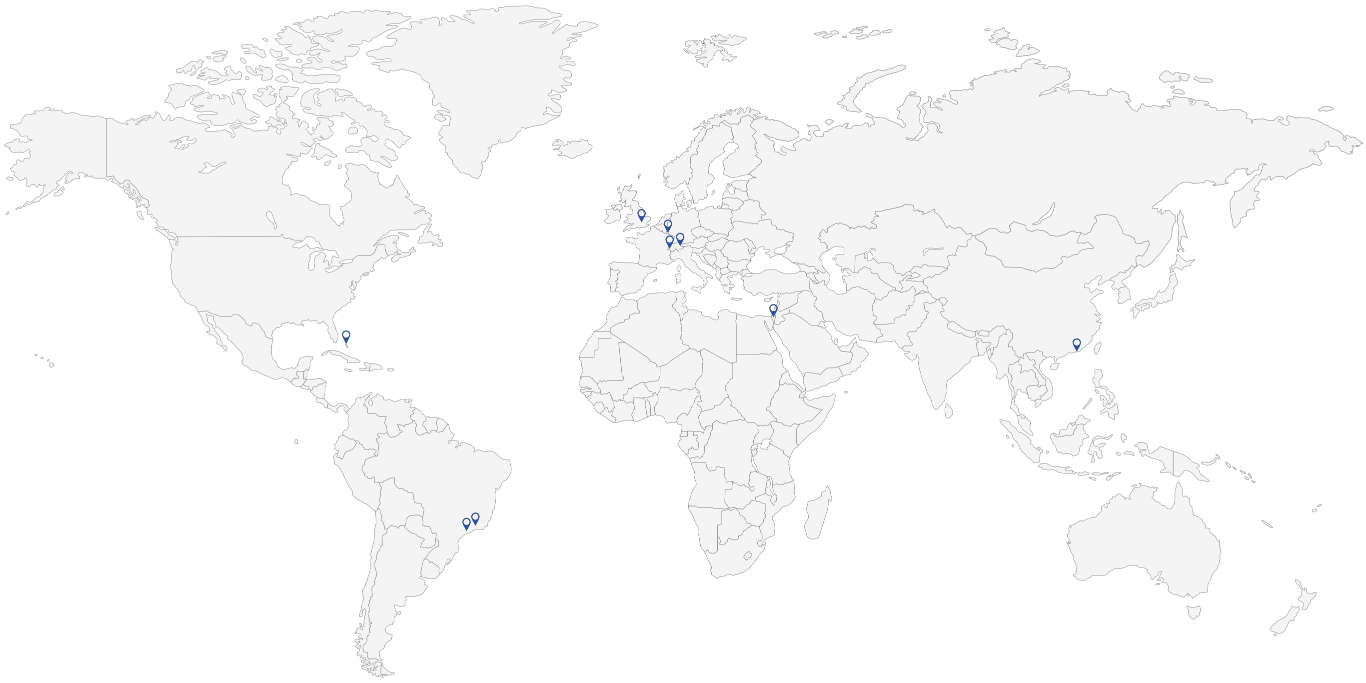
CBH Wealth UK Limited
2-4 Cork Street,
London W1S 3LG, UK

cbhbank.com
t +44 207 647 1300

## Hong Kong
Subsidiary

CBH Asia Limited
Suite 2001, 20th Floor,
K11 ATELIER, 18-24 Salisbury
Road, Tsim Sha Tsui, Kowloon,
Hong Kong, HK

cbhbank.com
t +852 2869 0801



## Nassau
Subsidiary

CBH Bahamas Ltd.
CBH House, East Bay Street
P.O. Box N-1724
Nassau, N.P., Bahamas

cbhbank.com
t +1 242 394 61 61

## Tel Aviv
Representative Office

CBH Bank
Rehov Tuval 40
Ramat Gan
5252247 Israel

cbhbank.com
t +972 73 793 62 22

## Rio de Janeiro
Subsidiary

Rua Visconde de Pirajá, 470
7º andar - Ipanema
22410-002 Rio de Janeiro – RJ

1618investimentos.com
+55 21 3993 6901

## Sao Paulo
1618 Investimentos Subsidiary

1618 Investimentos
Rua Iguatemi, 192
Itaim Bibi
CEP: 01451-010
São Paulo - Brazil

1618investimentos.com
+55 11 4550 4401

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CBH | Compagnie Bancaire Helvétique

Asset Management
Boulevard Emile-Jaques-Dalcroze 7
P.O.Box
CH - 1211 Geneva 3

am@cbhbank.com
www.cbhbank.com